

Transitional measures for interruption

Impact on cost benefit analysis presented in RIA

Transitional measures

- Transitional measures would be in form of:
 - allowing customers who wish to be interruptible to remain so
 - cap the price at which participants are allowed to enter into interruption contracts
- Would, therefore, allow continuation of present regime for the period of transition.

Evaluation assumptions

- Assume transitional measures allow for glide path to new arrangements
- Therefore, inefficiencies identified in the RIA would continue for that period although would reduce on a flat line basis over the period of the transition
 - system operation inefficiencies. Current contracting arrangements remain, therefore costs of interruption only partially revealed as glide path unwinds.
 - investment inefficiencies reduce as glide path unwinds:
 - capping price leads to over-investment – price cap assumed to be relaxed on a glide path basis
 - continuation of existing inflexible contracting structure will tend to “crowd out” those willing to enter into new more flexible contacts.

Estimate of impact of transitional measures

- Impact of transitional measures depends on:
 - duration of glidepath
 - the level of efficiency benefits under each option

		Option 2A	Option 2A*	Option 2B	Option 2C	Option 3
No glide path	Benefits	43	24	46	45	62
	Costs	31	31	28	33	40
	Net	12	-7	18	12	22
3 year glide path	Benefits	38	22	41	41	59
	Costs	31	31	28	33	40
	Net	7	-9	13	8	19
5 year glide path	Benefits	32	18	35	34	49
	Costs	31	31	28	33	40
	Net	1	-13	7	1	9

Figures in £s million and net present value over 18 years

Cost of transitional arrangements

Hence, the overall cost of the transitional arrangements...

	Option 2A	Option 2A*	Option 2B	Option 2C	Option 3
Cost of three year glide path	4	2	5	4	3
Cost of five year glide path	10	6	11	11	13

Figures in £s million and net present value over 18 years

..... 5 year transition costs proportionally higher than 3 year transition due to impact of discounting

A large, central version of the ofgem logo is positioned in the middle of the slide. It features the word "ofgem" in white lowercase letters on a red rounded rectangular background. The background of the slide is a collage of blue-tinted images related to energy, including a power plug, a person at a computer, and a power strip.

Promoting choice and value for all
gas and electricity customers